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S E C R E T ABU DHABI 03439

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TO RUEHC/SECSTATE WASHDC PRIORITY 1032
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S E C R E T SECTION 01 OF 02 ABU DHABI 003439

SIPDIS

STATE FOR NEA/ARPI AND EB/ESC/IEC/EPC
ENERGY FOR MOLLY WILLIAMSON AND JOHN BRODMAN
NSC FOR HUTTO

E.O. 12958: DECL: 08/08/2015
TAGS: ENRG EPET PTER TC
SUBJECT: ABU DHABI OIL PRODUCTION AND SECURITY

Classified By: Ambassador Michele J. Sison for reasons 1.4 (B) and (D).

¶1. (S) Summary: Abu Dhabi Company for Onshore Oil Operations (ADCO) GM told Econchief that ADCO is currently producing 1.2 mb/d and will be able to produce 1.4 mb/d by end 2006. He expressed concern about the impact of a sea borne attack on ADCO's main export terminal, which could shut down exports for months. The GM also noted that ADCO had not discovered any large fields since 1964 and that future increases in production would need to come from smaller fields. End Summary.

INCREASING PRODUCTION CAPACITY

¶2. (C) On August 7, Econchief met with Kent Wells (strictly protect), General Manager of the Abu Dhabi Company for Onshore Oil Operations (ADCO) to discuss onshore oil production capacity and oil infrastructure security. Wells said that he understood the USG's concern over high oil prices, adding that ADCO is increasing production capacity as quickly as it reasonably can. ADCO currently produces 1.2 million barrels per day (mb/d) and will raise production capacity 1.3 mb/d by the end of 2005, and to 1.4 mb/d by the end of 2006. Wells said that ADCO would easily reach these targets and would be completing one project in September 2005, another in December 2005, and one more by the end of ¶2006. Wells added that ADCO was developing a plan to reach a production capacity of 1.5 and 1.6 mb/d by the end of the decade. He said that he thought this would be the maximum ADCO could reasonably expect to produce. He acknowledged that ADCO might eventually be able to produce 1.8 mb/d if

ADNOC changed its policy of requiring fields to be able to produce at the same rate for 25 years. Wells added that he thought ADCO's main export terminal at Jebel Dhana would be able to handle exporting 1.5-1.6 mb/d. To go much beyond that, he said, would require substantial investments in expanding the terminal. He said that, from ADCO's point of view, these investments wouldn't make much economic sense. In an absolute emergency, Wells said that ADCO could increase onshore production by 200,000 to 300,000 bpd, without flaring. Of the 1.2 million bpd ADCO produces, it pumps only 90,000 bpd to Abu Dhabi's refineries and exports the remainder as crude.

¶13. (C) According to Wells, ADCO has experienced the same shortages of petroleum engineers and supplies that have affected world markets. Wells said that, over the last few months, ADCO has been losing employees to higher salaries in other countries, at a time when it should be growing its workforce. Although ADCO has not faced difficulty getting oil rigs, he noted that the price of steel has doubled in recent years. Wells said that because suppliers know that the UAE is a good long-term customer, they will push prices exactly as much as they can without hurting the relationship, then back off.

EXPLORATION

¶14. (S) Wells told Econchief that ADCO has not discovered a large oil field on the scale of the Bab, Bu Hasa and Asab oil fields since 1964. Wells said he does not expect to find any additional large fields, although he would like to discover one more. According to Wells, ADCO's three large oil fields still contain a 100 year supply of oil, and supply 1.1 of the 1.2 million bpd that ADCO produces. Its two smaller fields, Sahil and Shah, produce about 500,000 bpd each. Increases in production, however, will need to come from smaller fields, which are more expensive to exploit.

OIL FIELD SECURITY

¶15. (S) In response to Econchief's question about oil field security, Wells said that the UAE was well protected against "people already in the country," adding that it was very difficult to approach the onshore facilities without security responding. He said, however, that the main export terminal at Jebel Dhana was much more vulnerable to an attack from offshore, for example by a "fishing boat full of explosives." If a terrorist sunk a tanker in the main channel to Jebel Dhana, he noted, "we would be out of business for months." If the attackers destroyed one of the single point moorings, it would close down exports until ADCO could replace it. On the other hand, he said, if someone blew-up an onshore pipeline, ADCO could replace it quickly. Wells reported that ADNOC is currently conducting a major study on security issues. In Wells' opinion, the UAEG's interest in U.S. security for the oil sector gave U.S. firms considerable leverage.

SISON